

Second Quarterly Report 30 June 2001

Prepared by
Chemonics International, Inc.
1133 20th Street N.W.
Washington, D.C. 20036

Under the USAID-Funded Project
Assistance à la Dynamisation de l'Agribusiness au Rwanda (ADAR)

Contract Number PCE – I – 807 – 99 – 00003 – 00
Task Order Number 807

For

USAID Rwanda

CTO Andrew Karas
31 July 2001

Outline

I. Group Interactions

Ruhengeri
Cyangugu
Butare
Miami
Uganda and Kenya
Kigali Strategy Meetings
Transportation

II. Commodity Strategies

Coffee
Potato
Passion Fruit
Pyrethrum
Ornamental Flowers

III. Reports and ABC Coordination

Work Plan
Monitoring and Evaluation (M&E) Plan
Environmental Impact Policy
Loan Guaranty Fund Revision
Outline of ABC Brochure and Directory
ABC Questionnaire and Collaboration Agreement
ADAR Advisory Group
Bureau of Norms and Standards

IV. Administration

Annexes

- A** Meeting Schedule, Notes on Ruhegenri, Cyangugu, Butare, Miami brochure, Uganda, Kenya
- B** Coffee Strategy - Notes and Matrix ; Potato Strategy Notes
- C** Questionnaire, Collaboration Agreement, Advisory Group
- D** Loan Guarantee Fund revision

Group Interactions

*The ADAR project's primary thrust throughout the second quarter of 1 April - 30 June was bringing project concepts and approach to individual agribusiness operators, associations, other donors and government cadre through various settings, mainly province level conferences, smaller workshops, and individual one-on-one sessions, and to devise action plans for operators in ADAR-targeted export commodities. During the quarter ADAR / ABC interacted with 239 individuals in this fashion (meeting schedule – **Annex A**)*

Ruhengeri :

ADAR in coordination with the province of Ruhengeri sponsored a one- day conference on 18 April bringing together for direct dialogue primary potato producing associations in the Ruhengeri area and potato buyers from Kigali, Gitarama, and Butare. Invitations attracted 63 participants including CARE International which is active in Ruhengeri, PASAR (EU Food Security project), plus local province and Minagri cadre.

The intent was for local growers to meet regional wholesalers and get involved in commercial distribution, in effect, building up their margin by taking charge of another link in the commodity chain. The outcome was more than expected: this forum permitted two parties with common interests, complementary skills, and ADAR's technical assistance to start up the first potato agribusiness. This report details the "Volcano Potato Project" in the Strategy section.

A visiting horticultural consultant also examined pyrethrum growing, processing and refining facilities. The encounter and resulting report have laid the groundwork for a pyrethrum strategy. Commercially marketed potatoes and fully refined pyrethrum offer potential to raise income significantly of most households in Ruhengeri province.

Cyangugu :

Making the best use of a visiting consultant's expertise, ADAR organized a one-day conference in Cyangugu which, given the regional concentration in coffee, focused on its potential to increase rural income in all phases of the commodity chain. ADAR reinforced this new awareness the following month in May by bringing together a major investor currently building coffee washing capacity in the Cyangugu region with local planter cooperatives. One clear need identified was for training planters in best cultivation techniques of coffee cherries destined for the full washed, high end market.

The ADAR team in the course of these two visits to this relatively remote, but commercially significant region, visited new sites in Cyangugu and Butare, potential sites for new coffee washing stations of interest to private investors, and the province officials to brief fully on the findings, next steps, etc to include training workshops.

Butare :

As in Ruhengeri, Gisenyi , Kibuye, and Cyangugu, ADAR sponsored a one-day mini-launch in the Butare region under the aegis of the provincial authority. While the turnout at this June event was relatively smaller (37 participants) than in other areas, participant level of interest was exceptionally high: by the 16:30 closing all participants were still in their places. We suspect that one of the reasons for this is the diversity of products with commercial potential in the region --- coffee, passion fruit, dracaena, green beans and peppers --- and that ADAR was able to address most of these interests with a diversity of speakers.

Assistance à la Dynamisation de l'Agribusiness au Rwanda

Second Quarterly Report : April – 30 June 2001

The level of interest however was offset by the startling absence of practical business experience or insight among the audience. When asked to prioritize issues of concern for investors seeking to start up a business we were startled to see that product and market came last or that the audience wanted to know how much ADAR would invest and what markets it would find for them.

Annex A to this report provides more details on Ruhengeri, Cyangugu and Butare group interactions.

Miami :

In April ADAR organized through the Chemonics' Head Office Project management Unit the attendance of a handpicked group of Rwandan coffee investors to the Specialty Coffee Conference held in Miami. They learned firsthand that Rwanda's geographical advantages have endowed it with four of the five "virtues" of quality coffee --- high altitude and right humidity, bourbon varieties of heirloom arabica, coffee washing potential, and near-organic growing conditions.

Further, they learned that once they achieve the desired level of quality, how important consistency and delivery reliability were to attracting and maintaining wholesaler clientele. Their most riveting discovery, which accelerated their interest in moving forward in coffee, was the 300% - 400% premium paid for quality over ordinary product.

ADAR prepared a special brochure (found in Annex A) on Rwandan coffee --- Burundi is known, Rwanda is not: production levels are not far apart, but quality image is --- and arranged for an international consultant to be with the Rwandan participants to facilitate making new commercial contacts and to guide participation in small group sessions.

Uganda and Kenya,:

ADAR participated in regional events as well, first in the East African Fine Coffee Association Conference in Kampala and immediately afterwards in the OCIR --organized, 5-day study tour in Kenya for its cadre and seven private sector coffee investors/growers, some of whom were introduced to OCIR by the Agribusiness Center. ADAR facilitated meetings with equipment suppliers, and exposure to exhibits displaying merchandising, branding, marketing, and advertising techniques, often translating and explaining the commercial context of what participants observed.

This orientation process continued in Kenya while visiting commercial farms. There they observed demonstration farms (which don't mix varieties), nurseries, small --holder plots, research units, coffee growing cooperatives -- all of which specialize in arabica coffees to be processed under near-optimal conditions---- and even the Coffee Board of Kenya where they witnessed fully washed coffee actually selling for \$4/kilogram (as opposed to \$1/kilogram for ordinary coffee)

Of additional value to ADAR is the exposure and commercial or consulting contacts established during these events, notably with Kenya's Coffee College for which ADAR is already organizing future participation for a number of motivated Rwandan Coffee Investors. Additionally ADAR made contact with a Burundian processing expert who would be available to train in Rwanda coffee investor clients being cultivated by the Agribusiness Center.

For more details on these activities and contacts while in Uganda and Kenya, please see **Annex A**.

Kigali Strategy Meetings :

ADAR prioritized immediately after the launch establishing commodity action plans for the most promising (export) sectors. Project Intermediate Result 2, which promotes greater commodity chain efficiencies, is also conceptually the most difficult to recast in discrete action segments that can linearly either claim to promote or to facilitate measuring efficiency gained. Hence, ADAR started with a macro review, bringing together commodity chain players --- raw material providers, their immediate customers, and third party government, ONG, or donors --- who have programs or experience working in the commodity sub sector.

This interaction exposed diversity, but also common interests. It built a framework for sorting out priorities. Both ADAR and *opérateurs* in the sector identify from one another, what opportunistic steps to take, including combining forces if desired. This enables ADAR to first link synergies among *opérateurs* sharing an open strategy exploration process, and then to follow up working directly with them on their individual action plans.

As commodity chain building blocks they in effect offer the potential to become private sector demonstration units whose success would interest others as well. This process has already begun in a number of commodities for which ADAR developed strategies along these lines during the second quarter.

The task of building efficiency in the commodity chain is addressed in two ways: first, growers have a means to become stakeholders in the conditioning and distribution network, increasing their margins; secondly, as agribusiness specializes to make product for clients in targeted markets they create barriers to those opportunists who otherwise can compound inefficiency by speculating in an undifferentiated raw product.

- **Potato:** Two ground breaking strategy sessions among potato interests took place at the ABC during May following the Ruhengeri meeting. They attracted the interest of ASSR, a Belgian program that is improving potato seed stock variety. ADAR in coordination with the Rwandan Private Sector Federation subsequently sponsored two additional encounters both at the ABC and the RPSF during June between the first potato agribusiness and its prospective clients (hotels, restaurants, and grocers).
- **Coffee:** ABC hosted three group coffee strategy meetings during May and June. The range of interests was wide indeed: this crop is grown in many different regions. The players include small growers, cooperatives, interested land holders, lenders and active or potential investors. This process led to numerous smaller group follow up meetings and to the current coffee strategy.
- **Passion Fruit:** ADAR hosted a group meeting of passion fruit interests in June. As for other commodity sessions, representatives of financial institutions BRD and *Banques Populaires* attended as well to watch the process and to provide lender feedback. The strongest operators emerged from this session and appealed for synergies to create a "Rwanda Inc." in passion fruit. ADAR is planning a study of production/processing/marketing feasibility in Cyangugu, Butare, and greater Kigali regions of Rwanda to build an information resource at the Agribusiness Centre for potential investors.

Assistance à la Dynamisation de l'Agribusiness au Rwanda

Second Quarterly Report : April – 30 June 2001

- **Pyrethrum:** After initial contact and tour of fields, drying facilities, and refining facilities in Ruhengeri ADAR held three in depth sessions with the principal owner of SOPYRWA. At the third, he included his consultant to help outline the basic assumptions and technical approach in the business plan, a copy of which was left for ADAR's analysis. Meetings with cooperative-growers are planned over the next two quarters

An additional benefit of these encounters has been the attention ADAR has attracted by word of mouth: investors who need technical coaching, specialized training or workshops, or new ideas and contacts have begun to approach ADAR. This will accelerate as successful prototypes emerge. The value ADAR can bring is to nurture successful prototypes and let the private sector copy success, something for which very little outside additional encouragement is needed. Laying the groundwork for sustainability can bring many future dividends.

Transportation :

One of the most nettlesome issues frustrating business development in Rwanda remains the costly, disorganized transportation systems unsuitable to service business on a commercial scale. Domestic and to a lesser extent regional overland transportation is not professionally managed. Transport service in these areas will evolve once agribusiness operators have need and are prepared to pay for reliable delivery to markets located some distance away. However costly or inefficient, overland transportation presents no critical mass constraints.

This is not the case with air cargo. Rwanda needs to export a minimum 300-400 metric tons per month, broken down to a minimum of 8-10 deliveries a month (every three or four days) to attract a carrier. The market served will likely require frequent deliveries. Air cargo capacity needed to move Rwandan perishables overseas is currently not available, reflecting as well inactivity and disorganization at the unit producer lever.

ADAR sponsored during June a morning session with commodity producers, who complain that air cargo space is not available for them. When asked to express their air freight needs in commercial terms, measured by palette space they wish to reserve, number of units for loading, packaging, frequency and quantity per flight etc., none could reply, even when given a simple form to fill out with the details. They want cargo space committed with no corresponding obligation to utilize it, again a reflection of a mindset not steeped in the hard realities of the market place.

ADAR will seek to identify a feeder service, requiring less tonnage out of Kigali, that can deliver to major international hubs. This may be possible as nascent agribusiness units standardize product for the air export market. To help start at this smaller (feeder route) level, ADAR has proposed to the producer exporters to develop an export association with a financial institution backing payment obligations to carriers bringing air cargo capacity to Rwandan exporters. (Here the association members would police export performance better than anyone.) An exporters association in Uganda has already such an arrangement in place. ADAR is planning to familiarize Rwandan exporters with the techniques by bring from Uganda the necessary expertise to detail the approach.

Commodity Strategies

Agribusiness in Rwanda must have an export market to serve if it is to evolve into sustainable industry. A main concern of ADAR during the second quarter therefore was prioritizing commodities by potential to evolve into viable export industry sub-sectors. Critical variables influencing commodities targeted include current and potential market demand and location of markets,, abundance of crop and familiarity with cultivation techniques, cash / food security benefit, value enhancement / job creation potential,, foreign exchange and (unprotected) import substitution benefits, and of course, the potential to develop a base for sustainable agribusiness growth.

Coffee :

is already fully exported. There remains, however, high and as yet unexploited potential to boost household income and increase national foreign exchange earnings. But Rwandan private operators will have to learn to adopt processing techniques yielding a finished product more likely to attract a premium in the market.

In order to promote this, ADAR has programmed action plans for the following:

- Individual operators: There are a group of individual operators who currently invest or are seriously considering investing in coffee production and processing, but need coaching, technical assistance and encouragement.
ADAR originally identified three, but by word of mouth, new potential clients have surfaced. ADAR now treats these seven as individual clients to build trusting client relationships, and as a group, to build solidarity and share common experiences. This latter usually takes place at ADAR-arranged discussion groups and during specialized training.
This group at the same time also constitutes the nucleus for a future Fine Quality Coffee Producer-Processor-Exporter Association safeguarding production standards and harmonizing market positioning through consistent quality, product representation, packaging and labeling.
- Small cooperatives: It may well take a generation for Rwanda to fully exploit its latent comparative advantages in coffee: the maximum production of uniform small crop, shade grown, heirloom arabica which is professionally treated in modern processing units and exported to premium markets under its own labeling. For the majority of coffee producers, most of whom on average tend to 200 trees on a 10,000 sq. foot plot of land, a generation is much too long.
ADAR in conjunction with OCIR is putting together a 3-page "prospectus" in Kinyarwanda communicating the potential gains and needed sacrifices in building and managing a manually operated coffee washing station. Those cooperatives eager to pursue this will receive OCIR-ADAR coordinated assistance to bring them into operation. What is unique and critically different in the ADAR approach is that the station sponsors must not only fund their own startup, but also with ADAR technical assistance, commit to operate their washing station as a business for the venture to pay off.

Assistance à la Dynamisation de l'Agribusiness au Rwanda

Second Quarterly Report : April – 30 June 2001

ADAR believes that the optimal operating structure is several cooperatives coordinated under a private investor who takes keen interest in standardized quality, regular supply, and client relationships, and whose personal capital is at risk. He would likely be a member of the ADAR coffee group and a registered client of the ABC. This would concurrently reinforce a longer term objective of ADAR--- the creation of a fine quality coffee network. None exists in Rwanda.

Large Stations :

Rwanda has privatized all two of its electrically-powered coffee washing stations. They barely function. **The Nkora station** in the northwest on Lake Kivu can easily process 400 tons of pre-milled bean (originating from 2,000 tons of picked, ripe coffee cherries). During 2000 it produced, after milling, 18 tons (24 tons pre-milled), which corresponds to 6% of capacity. In year 2001 it hopes to have as much as 50 tons after milling, again well below potential at only 17% of capacity if indeed realized. The owners of the privatized facility, a 2000-member cooperative named UPROCA, are in arrears on 90% of purchase price at time of privatization. The cooperative suffers from strained relations with OCIR.

ADAR, OCIR, and the President of the cooperative have taken the first steps to outline a joint strategy (*Programme d' Assainissement*) designed to

- train growers supplying cherries to the station in optimal cultivation techniques
- raise capacity utilization to 50% in 2002, and in annual 10% increments to 90%
- synchronize continuing infrastructure upgrades with cash flow
- commence a five year program of debt repayment
- set up a management development and a cooperative empowerment program

The first priority will be to consolidate these components into a business plan proposal to present to the Privatization Secretariat, to the banks (for working capital only), to OCIR (as guarantor), to outside investors, and possibly to outside management responding to a call for bids to manage the unit and train local cadre for several years,

The Masaka station located within 20 km. of central Kigali, also recently privatized, is to be returned to the state body OCIR which will maintain the station pending identification of a new owner.

ADAR has proposed, and OCIR has accepted a joint strategy to identify a private entrepreneur ---perhaps a member of the group ADAR has developed under the category "individual operators", whether as individual or group, to rent the station, demonstrate its viability, and consider purchasing it later. Should the investor group decide not to buy in, OCIR could more easily sell at a better price if the unit has shown that it can operate profitably. ADAR would focus on training, management and marketing; OCIR on sourcing cherries and technical/operation issues.

Training :

ADAR is developing with consultant assistance essential training themes at several levels – for individual investors on the realities of operating and commercializing for the premium coffee market; for cooperative – run coffee washing stations yet to be formed on integrating all phases of processing to retain quality control, and for the small land-holder producer, on cultivation techniques that yield a better sale price when purchased by the processor.

Assistance à la Dynamisation de l'Agribusiness au Rwanda

Second Quarterly Report : April – 30 June 2001

Potato :

This commodity sub-sector illustrates one guiding ADAR principle: strategy translates into action, but only when there are investors/managers/stakeholders committing their own resources. In the case of potatoes, the landscape was barren indeed. Not a single agribusiness in operation despite the strategic potential. Even within Rwanda, prices have been unstable, despite regular harvesting year round.

Two operators, one an exporter of unprocessed, organic fruits and the other a cooperative specializing in seed cultivation and grower support programs in the Ruhengeri area have during the second quarter joined forces to create the first enterprise capable of evolving into a serious potato agribusiness.

They came into direct discussion as a result of various gatherings on potato strategy initiated by ADAR. In the course of these meetings they adopted a basic ADAR premise that a real potato agribusiness to distinguish itself would have to improve variety, condition the product for market (clean, sort, bag, label, etc), and manage, directly or indirectly, commercialization and distribution.

The strategy going forward is twofold: first to develop a better product and exploit the consumer niche willing to pay a premium (80-90 FRW a kilo to start, instead of 50 FRW a kilo). In servicing a purely domestic market the new company---Volcano Potato---would have an opportunity to master processing, pricing, marketing and distribution problems likely to arise. Acquiring these disciplines in turn would precondition Volcano Potato for the much more promising, but demanding, regional market, where inconsistent quality or delivery can extinguish buyer interest very quickly.

In Rwanda Volcano Potato will offer 20 kilo bags starting in August to hotels, restaurants, and grocers some of whom attended the two sessions ADAR organized for the company to introduce its superior potato and its new approach offering regular delivery and price stability to targeted commercial outlets.

Potatoes are promising because they grow well in Rwanda, are extremely popular regionally based on the taste only volcanic soil can bring, and with the new varieties being developed, can now easily triple shelf life to three months. Moreover, the likelihood of raising grower income by 50%, from 30 FR on average per kilo to 45 FR per kilo, and this just in servicing the domestic market before expanding on a regional basis, suggests that potato agribusiness can improve household purchasing power/food security in a fairly dramatic way.

Passion Fruit :

ADAR's strategy in passion fruit evolved during May and June. There are several elements to this

- **Individual Operators:** The commodity chain is as strong as its links. By strengthening those individual commercial units ADAR can advance the *filier*e as a whole. During this quarter ADAR has outlined a new strategy for AFER, the Association of Women Entrepreneurs, to take charge of its distribution network; for "Inyange Dairy" ADAR is facilitating sending organic concentrate samples for testing in a Belgian laboratory (Chiquita Brands); and with "Shema Fruits" ADAR will soon coordinate a business plan to gear up production and to introduce of an organic line of goods. Others prospective investors have sought ADAR advice.

Assistance à la Dynamisation de l'Agribusiness au Rwanda
Second Quarterly Report : April – 30 June 2001

- **Integration of players:** Underlying ADAR strategy is the hypothesis that the more commercially active key players become, the more they will need to align their work with related parties: better coordination with growers on both quantity and quality; better coordination with transport to commercial outlets; better merging of production capacity to serve a larger market. This point was emphasized in the key group strategy meeting, but the notion takes some time to sink in. One avenue to break down the barriers is to form an association to arrange transport in its name, order packaging in its name, and develop quality control measurements and labeling in its name - advantages which ADAR will continue to highlight.
- **Targeting of Markets:** ADAR has articulated a reference point towards which to focus individual and group energies. This consists of three cultivation and processing zones - Cyangugu, Butare, and Kigali Rural preparing to serve three distinct markets: fresh fruit overland to neighboring countries, juice for the sizeable domestic market to replace artificially flavored product coming out of Uganda; and organically certified products, jams and concentrate for example, destined for Europe and the Middle East. In these three regions ADAR will conduct a survey of current and potential cultivation, processing infrastructure, and consumption as background to guide scale and balance of interventions.

Pyrethrum :

During the second quarter ADAR cultivated a fruitful working relationship with SOPYRWA's ownership, culminating in an in depth review of the draft business plan with management and its resident consultant. Much work remains to solidify the plan into a bankable project, including a pyrethrum specialist's assessment of what is needed to get near full production out of existing processing infrastructure. This is expected to occur late in the next quarter. Laying the groundwork with SOPYRWA management for this intervention and fielding appropriate expertise have put in motion a strategy to commercialize to its potential refined pyrethrum production in Rwanda.

Supporting this effort is management's expansion of fields under cultivation, advancing from 800 ha. in 2000 to now over 2,000 ha. growing pyrethrum flowers. Indeed, 2400 ha is planned for 2001, altogether tripling pyrethrum acreage under production compared to last year. Management estimates that a minimum of 3000- 3250 ha. must be under continuous cultivation to reach breakeven production capacity for both refining units.

But, in order to get there, considerable infrastructure must be added, namely, additional delivery equipment (to flower drying plants) , rehabilitation of drying plants ---only two in operation while six remain idle---, equipment modernization in the first stage processing plant, and additional rehabilitation in the second stage processing plant. This last is to be spelled out in detail by two visiting pyrethrum specialists. This second stage end product sells for about three times the first: around \$180/kg as opposed to \$82/kg. The refined, second stage processing plant was completed some fifteen years ago with UNDP/UNIDO donor funds and still appears to be in mint condition as it has never actually functioned.

Assistance à la Dynamisation de l'Agribusiness au Rwanda
Second Quarterly Report : April – 30 June 2001

SOPYRWA has advised its sole (foreign) customer which has the right to purchase all first phase refined production, that it plans to branch out to other clients (permissible with six months notice to principal customer). Concurrently, SOPYRWA is preparing to receive foreign visitors as potential customers or investors later in the year.

ADAR's strategy is to have the best workable business plan, incorporating the latest technical and business studies, in hand by this time. The business plan must integrate rehabilitation and training costs, break even and market strategies in the form of credible cash flow forecasts to give confidence to prospective partners and clients.

Ornamental Flowers :

Initial efforts to identify prospective investors bore no fruit. Flower production is capital intensive, FRW 160 million per hectare just for start up, and air transport capacity for perishables is uncertain, diminishing recovery prospects on the high investment.

ADAR's revised strategy is to assemble an advisory group of key government interests and policy makers to develop a blueprint to take to prospective investors, including potential foreign investors. ADAR will assemble an investor roundtable to convey what is on offer and go from there. These events are planned for the third quarter.

The reasoning is that basic investor issues ---product, market, financing---must be sorted out, independently of the transportation question, and all as a prelude to any investment decision. This process creates the necessary interest and contacts to eventually yield serious business propositions.

But all this takes time. To keep the dialogue active ADAR plans to field a flower technical specialist in order to array production module options and related start up costs. This "menu" for investors can open reasonable options for them to explore individually according to their commitment level.

Reports and ABC Coordination

Putting the ADAR project on track during its first five months necessitated preparation of various project documents and reports. The following covers the most significant items for the quarter

During the three months following the launch ADAR finalized the outline of the three year plan for the project plus filled in the details on implementation timing for the first year (**Work Plan 2001 - April**), and results measurements directly related to implementation (**Monitoring and Evaluation Plan - May**). During June ADAR prepared an **Environmental Impact Policy Draft**, currently under review in Washington, to guide ADAR on monitoring and alleviating potential environmental degradation that could result from agribusiness units assisted in some way by the project.

Planning proceeded with equipping and opening the Agribusiness Center (ABC), to include establishing internet contacts, subscriptions, information on fairs, specialized product equipment, prices and market trends, etc to fortify the reference capacity of the ABC. ADAR completed the **ABC Brochure** outline and made substantial progress on the **ADAR Agribusiness Directory** for printing and distribution in the following quarter.

ADAR finalized the **ABC Agribusiness Questionnaire** and the related **Collaboration Agreement** document according to the M&E Plan. The questionnaire sources detailed information on a client's business and serves as a baseline once completed. The accompanying Collaboration Agreement engages the client to be open and direct in dealing with the ABC and furnish information necessary for the ABC to monitor project performance and to identify areas needing more resources.

A client must complete both documents, which are illustrated in **Annex C**, to be considered a registered client. This registration process began in the second quarter, will complete a first round in the third quarter, and will remain available for new clients who link up with the ABC in the future.

Also during the second quarter ADAR completed selection and invitation of the members of the project **ADAR Advisory Group**. The membership, which totals 14 Rwandans, plus USAID as an observer, includes three financial institutions plus the Coordinator of the World Bank Rural Sector Support Program. A full membership list is in **Annex C**. ADAR plans quarterly presentation and feedback sessions with this Group, with the first session to be held early in the third quarter.

Contacts between ADAR and the **Bureau of Norms and Standards** accelerated during the second quarter in order to explore modes of collaboration to promote normative standards awareness, a first step to developing a quality control capability. ADAR is already planning collaborative events for the next quarter. This is a prelude to a quality control training program.

In addition during June ADAR prepared and submitted a **Loan Guarantee Fund Revision** proposal designed to convert the LGF into a Multipurpose Financial Component. The new version would introduce a variety of ways of leveraging resources in order to facilitate agribusiness access to financing. This proposal is also designed to minimize waste typically associated with loan guarantee programs. The proposal is given in its entirety in **Annex D**.

Administrative

Setting up the ADAR project has from the outset accentuated the need for close attention to numerous administrative details. The following summarizes the main activities during the second quarter

As of June 30 the Office generator was in place. At 17 KV and with automatic start up, it will prove adequate for the ABC facilities. The office make ready budget financed construction of a mini-garage where the generator is housed. The third project vehicle, a full size Toyota Land Cruiser that ADAR had ordered in March, was still overdue at quarter end, but expected to arrive in July.

Installation of an office LAN system has greatly improved communications. Currently, all office computers are linked allowing communications and document sharing. Short-term consultants from the contractor's Head Office have conducted field office administrative and accounting audits, thus strengthening interoffice policies and procedures.

During the second quarter ADAR completed the project start-up phase of hiring local support staff, arranging telephone, fax, email, and computer hook up, etc. This occurred shortly after completing major renovation work. This permitted staff relocation to permanent offices at the current ABC Center. Additionally, ADAR finally procured business cards and stationery all bearing the new project logo.

While ADAR had essentially determined the composition of the technical team in the second quarter and as of June 1 the entire technical team was on board, various contract issues remained outstanding, delaying authorization and hence formal notice to the Mission that all local staff had been recruited.

In the second quarter ADAR began to focus on long-term administrative issues, notably replacement of the expatriate operations manager with a local hire, as programmed by the Contractor Chemonics International. The switch will occur in late January 2002, although with training of the replacement several months before that. The best candidate for this position will be identified by the third quarter.

Deliverables

Deliverables still due at 30 June 2001 are as follows :

- ADAR Local Staff Employed: A letter confirming to USAID that ADAR local cadre and administrative staff are all in place will be sent out in the third quarter.
- ADAR Environmental Impact Policy: A policy proposal submitted by the ADAR staff is under review at Chemonics / Washington and should be finalized in the third quarter.
- Training Plan: A training plan is under finalization; to be forwarded to USAID in the third quarter

Assistance à la Dynamisation de l'Agribusiness au Rwanda
Second Quarterly Report : April – 30 June 2001

Preview for the third Quarter

Key objectives to launch during the third quarter include the following :

- ❑ Organize the Agribusiness Centre :
 - Publish ABC Brochure, Agribusiness Directory and Financing Sources Directory
 - Present Questionnaire and Collaboration Agreement to the ADAR clients
 - Inaugurate the ABC Centre
- ❑ Develop Training activities :
 - Initiate the Training of Trainers
 - Introduce Coffee Pruning (Rwanda), and Coffee Farm, Coffee Factory and Coffee Nursery Management (in Kenya)
 - Commence Internet orientation at the ABC
 - Collaborate on Norms and Standards training with *Office des Normes*
- ❑ Introduce ADAR at province levels conference - Gitarama, and Kigali Rural
- ❑ Formalize the recovering and operating plan for the 2 existing coffee washing stations
- ❑ Facilitate Consultant studies in pyrethrum and preparation for a comprehensive Business Plan in the 4th quarter
- ❑ Organize Passion fruit study on cultivation, processing and marketing within the 3 targeted production zones of Kigali Rural, Butare and Cyangugu potential
- ❑ Coordinate launch of the "Volcano Potato" product trial
- ❑ Outline a strategy for developing ornamental flower investment options

(To be decided by technical team and for me to suggest afterwards what to add.)

END of Narrative

Annexes

Annexe A

- Meeting Schedule
- Notes on Ruhegenri
- Notes on Cyangugu
- Notes on Butare,
- Miami Brochure,
- Report on Uganda Visit
- Report on Kenya Study Tour

Annexe B

- Coffee Strategy Notes
- Coffee Steps to Success Matrix
- Potato Strategy Notes

Annexe C

- Questionnaire
- Collaboration Agreement
- Advisory Group Composition

Annexe C

- Loan Guarantee Fund revision

ANNEX B

ADAR / AGRIBUSINESS CENTRE

Coffee Washing Stations Planning- Seven STEPS TO SUCCESS → 30 June 2001

Province	Mobilisation of operators	Technical development - environment impact, - equipment - civil engineering)	Financing - capital propre - Business plan - créanciers	Physical construction	Training / Quality control and testing	Full production, operation	Market and Expo
Guguguru	x	x	x	x			
Benyi	x	x	x	x		x	x
Kuye	x						
Ngungu							
Katete	x						
Karama							
Kigali							
Kinyinyi							

Assistance à la Dynamisation de l'Agribusiness au Rwanda
Second Quarterly Report : April – 30 June 2001

<u>ORGANIZATION STEPS</u>	ACTIONS	<u>TIMING</u>	EXPECTED RESULTS
1. Identify Key Operators	<ul style="list-style-type: none"> - Meet with key individuals - Meet with cooperatives 	Q1 +	<ul style="list-style-type: none"> - Advance to production status - Create integrated producer network
2. Coordinate Donors, including OCIR-CAFE	<ul style="list-style-type: none"> - Coordinate Partners - Meet at Prefecture level 	Q2 +	<ul style="list-style-type: none"> - Interests identified; roles defined - Collaboration basis established
3. Build Exporters Network	<ul style="list-style-type: none"> - Facilitate regular contacts 	Q3 +	<ul style="list-style-type: none"> - Exporters Association; market access
4. Formalize Producer Federation	<ul style="list-style-type: none"> - Meet Farmers Association - Involve Prefectures - Examine status 	2002/2003	<ul style="list-style-type: none"> - Federal Association; stronger representation - Greater cooperation among producers - Create mechanism for Quality Control
5. Training	<ul style="list-style-type: none"> - Training for Trainers - Management - Quality Control - Technical / Production 	Q2 +	<ul style="list-style-type: none"> - Better Quality production - Better Customer relations
6. Financial Access	<ul style="list-style-type: none"> - Management training - Lender participation in strategy 	Q4 +	<ul style="list-style-type: none"> - Better qualified Borrower - Better informed Lenders
<u>IMPACT STEPS</u>	ACTIONS	<u>TIMING</u>	EXPECTED RESULTS
1. Direct Market exposure	<ul style="list-style-type: none"> - Miami Conference - Brochure 	Q1 +	<ul style="list-style-type: none"> - Contact with Potential Buyers - Identify equipment; reorganize for production
2. Coordinate Cultivation and PHH	<ul style="list-style-type: none"> - Introduce new varieties - "Sort" Production 	Q2 +	<ul style="list-style-type: none"> - Increase resistance to disease - Improve production and productivity - Improve Quality
3. Set up Washing Stations	<ul style="list-style-type: none"> - Operator arrange site / financing - Introduce demonstrate model - Delivery based on progress 	Q3 +	<ul style="list-style-type: none"> - Incentive for more MPM - Improve processing - Increase full-washed production
4. Market Recognition	<ul style="list-style-type: none"> - Establish Quality Control - Invite Buyers - Standardize labelling 	Q4 +	<ul style="list-style-type: none"> - Higher Sales - More revenue for growers

Assistance à la Dynamisation de l'Agribusiness au Rwanda
Second Quarterly Report : April – 30 June 2001

5. Sustainable Financing	<ul style="list-style-type: none">- Business Plan for Farmers- Banks/Enterprises training	Q4 +	<ul style="list-style-type: none">- Business Continuity- Permanent Market Presence
--------------------------	--	------	---

Assistance à la Dynamisation de l'Agribusiness au Rwanda
Second Quarterly Report : April – 30 June 2001

<u>ORGANIZATION STEPS</u>	ACTIONS	<u>TIMING</u>	EXPECTED RESULTS
1. Coordinate Donors	- Meet at ABC	Q2	- Identify key issues, common interests, collaboration
2. Formalize Producer Federation	- Involve Prefecture - Involve Associations	Q3 +	- Set out statutes and formalize Agenda - Standardize Norms, etc.
3. Establish Buyer Network	- Facilitate regular contacts	Q3 +	- Motivate producers to satisfy consumer and buyers needs in exchange for higher initial sales price
4. Assess Market Preferences	- Interview Survey (local)	Q3	- Identify needed Post Harvest conditioning and Consumer preferences
5. Credit and Business Training	- Involve lenders in strategy - Train Agribusiness operators	Q2 +	- Better informed Management - Better informed Lenders
<u>IMPACT STEPS</u>	ACTIONS	<u>TIMING</u>	EXPECTED RESULTS
1. Organize production	- Segregate by Variety	Q4 +	- Quality product differentiation targeted for different markets
2. Improve Post Harvest Handling and conditioning	- Design PHH facility	Q4 +	- Ability to clean, sort, package and label for user
3. Introduce a new variety	- Extension training	Q4 +	- Strengthen customer loyalty - Test for export
4. Market Recognition	- Establish Quality Control - Invite Buyers - Standardize labelling	Q4 +	- Higher Sales - More revenue for growers
5. Promote other new varieties	- Research and development (ISAR)	2002 +	- Expand domestic - Diversify for foreign market
5. Sustainable Financing	- Business Plan for Farmers - Banks/Enterprises training	Q4 +	- Business Continuity - Permanent Market Presence - Establish sustainable supply

ANNEX C

Advisory Group Composition Projet USAID/Chemonics/ADAR – Rwanda

<u>NOM</u>	<u>FONCTION</u>
* Mme Speciose AYINKAMIYE	DG - Banques Populaires
Mr. Paul DELUCCO	Directeur – ACDI/VOCA (ONG)
* Mme Edith GASANA	DG – Banque Rwandaise de Développement
Mr. Pipiani HAKIZABERA	Executive Secretary – Rwandan Private Sector Federation
Mr. Enoch KABERA	DG – Carrefour SARL
Mme. Agnes KAYIJIRE	Directrice de l'Industrie, MINICOM
Mr. Jean-Calvin KAYIRANGA	DG – Inyange Laiterie
* Mr. Uwe KORUS	DGA – CARE International
* Mr. John MADDER	DG – Banque Commerciale du Rwanda
Mr. Ndobu MUGUNGA	PDG - SICAF
Mme Francoise MUKAGIHANA	Présidente de l'Association des Femmes Entrepreneurs du Rwanda - AFER
Mme Tasiana MUKARUSAGARA	Secrétaire Générale, MINAGRI
Mr. Evase NSENGIMANA	DG – Emballage Rwanda
Mr. Venuste RUSHARAZA	Coordonnateur - Projet d'Appui au Secteur Rural Projet Banque Mondiale

* Alternative also named

COLLABORATION AGREEMENT

The ADAR Project is sponsored by the United States Agency for International Development (USAID). Its mission is to revitalize agribusiness in Rwanda. ADAR, through its Agribusiness Center (ABC), needs information from clients about their business activities as a basis to offer technical assistance and coordination.

We certify that **ALL** information you provide is confidential. Such information will be retained on a strictly confidential basis by the ADAR project to monitor the specific impact ADAR has on your enterprise and, indirectly, on your commodity chain.

Information requested will focus on your participation in ABC- sponsored information forums and training, as well as details on planning, marketing, operating and financial performance --- and on your ability to attract outside financing ----which collectively have been influenced as a result of your client relationship with the ABC. Good records of commodity purchasing, marketing, sales and financing activity will be necessary.

This information will assist USAID's future planning by identifying specific ADAR interventions that benefit most you, the agribusiness operator.

By completing and signing the ADAR Agribusiness Questionnaire you have registered as a client of the ABC. ADAR's management will expect you to provide essential information to assist your business. This Collaboration Agreement confirms this understanding.

Date and Signature _____
Enterprise _____

ADR / ABC Director

A D A R - AGRIBUSINESS CENTRE
ASSISTANCE A LA DYNAMISATION DE L'AGRIBUSINESS AU RWANDA

QUESTIONNAIRE AGRIBUSINESS ENTREPRISES

1. Général

Votre Nom _____

Avez-vous une entreprise d'agribusiness ? **Oui / Non** _____

Sinon, voulez-vous en créer ? _____ ; **sur quel produit ?**
Dans quel domaine d'activité ? : production _____ ;
transformation _____ ; commercialisation _____ ; **Autre service/lequel ?**

Si vous avez une entreprise d'agribusiness en activité → passer à la question suivante,
Sinon → aller à la section 3

Nom de l'Entreprise _____ ; **Effectifs** _____

Date de création _____ ; **Statut Juridique** _____ **Siège social** _____

Siège social _____ ; **P.O. Box** _____ ; **Province** _____

Tel. _____ ; **Fax** _____ ; **E-mail** _____

Votre fonction dans l'entreprise _____

Vos parts sociales dans l'entreprise (%) _____

2. Profil d'activité de votre entreprise: mettre « néant » si vous n'êtes pas sûr

Secteur d'activité de l'entreprise : café _____ ; thé _____ ; pyrèthre _____ ; pomme de terre _____ ; fleurs _____ ; maracuja _____ ; autres fruits _____ ; produits de l'élevage) _____

Pourcentage du chiffre d'affaire par produit (Année 2000) _____ % ; _____ % ; _____ %

Site et dimension des terrains (Année 2001) _____

Equipements et installations _____ ; **% déjà amorti** _____

Variétés cultivées _____

Produit brut (T, Année 2000) _____ ; **Quantité brute commercialisée au Rwanda (T)** _____ ; **% exporté par rapport aux ventes totales** _____ ;

Pays d'exportation _____

Assistance à la Dynamisation de l'Agribusiness au Rwanda
Second Quarterly Report : April – 30 June 2001

Produit transformé (T, Année 2000) _____ ; % _____ ; exporté _____ ;	Quantité commercialisée (T) _____ ; Pays _____ d'exportation _____
Connaissance des normes et standards de qualité de vos produits? (2000) _____ ; (2001) _____	
Comment les déterminez-vous ? _____	
Comment les maintenez-vous ? _____	
Expansion ou renforcement de vos activités au cours des 2 dernières années _____ ;	
% Augmentation (2000/1999) _____ ; % Autofinancement _____ ; Diversification _____	
Si oui, citer les nouveaux produits : _____	

3. Expérience

Avez-vous une expérience dans la gestion des affaires ? Oui / Non _____ ; Si oui ® préciser _____
Dans quel domaine d'agribusiness avez-vous le plus d'expérience ? : production _____ ; conditionnement _____ ; transformation _____ ; emballage _____ ; transport _____ ; commercialisation _____ ; autre service d'agribusiness _____ / lequel ? _____
Années d'expérience en gestion : comptabilité _____ ; commercialisation _____ ; production _____ ; gestion des stocks _____ ; service après vente _____ ; finances _____ ; planification _____
Années d'expérience dans le conditionnement _____ ; la transformation _____ ; l'emballage _____ ; l'entretien des équipements _____ le contrôle de qualité _____ autre / quoi ? _____
Avez-vous bénéficié de formation dans l'agribusiness au cours des 2 dernières années ? _____ Laquelle _____ / durée _____ ?
Besoins actuels de formation _____
Si vous n'avez pas d'entreprise d'agribusiness en activité → passer à la section 6, alinea 2

4. Réseau commercial (sur vos produits) : mettre « néant » si vous n'êtes pas sûr

Comment vous-distiguez-vous par rapport à la concurrence? :			
Emballage des produits _____ / préciser _____	Publicité _____ / par _____	le type _____	canal ? _____
Produit _____ / Marché _____ actuel _____			

Assistance à la Dynamisation de l'Agribusiness au Rwanda
Second Quarterly Report : April – 30 June 2001

Nouveaux potentiels		marchés	
Nombre de grossistes achetant vos produits _____ ; Nombre de détaillants _____			
Capacité de tonnage hebdomadaire par fret aérien vers l'Europe (T / semaine) _____			
Votre prix de vente (FRW/kg) au grossiste (2000) _____ ; (2001) _____ ; à l'intermédiaire (2000) _____ ; (2001) _____ ; au consommateur (2000) _____ ; (2001) _____			
Combien de clients représentent 70% du Chiffre d'Affaires ? _____			
Leur		localisation géographique	

Sources	d'approvisionnement	en	matières premières
Critères	de	sélection	des fournisseurs

Comment	déterminez-vous	votre	prix de vente ?

Marge bénéficiaire avant impôt et charges des créanciers _____			
Ecart moyen entre le prix de revient et le prix de vente (FRW/kg) ? _____			
Combien d'unités devez-vous vendre pour atteindre le seuil de rentabilité ? _____			
Moyenne annuelle des dépôts bancaires / Années 1999 et 2000: _____			
FRW			
Montant des lignes de crédit depuis 1999 : _____ FRW			
Evolution de feuille de paie : (1999) _____ FRW ; (2000) _____			
FRW			

Assistance à la Dynamisation de l'Agribusiness au Rwanda
Second Quarterly Report : April – 30 June 2001

5. Historique en Chiffres (FRW) : Depuis 1999 (mettre « néant » si vous n'êtes pas sûr)

	12/1999	12/2000
Ventes	_____	_____
Capital	_____	_____
Total Crédit bancaire	_____	_____
Actif circulant	_____	_____
Cash en Banque	_____	_____
Amortissement	_____	_____
Profit net	_____	_____

6. Financement

Comment financez-vous votre entreprise: fonds propres ____ % ; crédit ____ % ; partenaires ____ %

Expérience avec les banques : positive ? / quelle banque ? _____
 négative ? / quelle banque ? _____ ; aucune ? _____

Avez-vous besoin de financements : pour investissement ? _____ / lequel ? _____
 _____ ; pour fonds de roulement / préciser _____

Avez-vous déjà soumis votre dossier à une banque ? _____ ; laquelle ? _____

Préparez-vous des Business Plans ? _____ ; Si oui, dernière année de préparation _____

Nombre d'années où vous avez préparé des Business Plan _____

Avez-vous déjà bénéficié de conseil / de qui ? : conseil technique conseil financier/comptable

 conseil juridique / Notaire _____ ; autre- _____

Association(s) où vous êtes membre
 Depuis quand ? _____

Quelle(s) institution(s) appui(ent) cette association ? _____

7. Autodiagnostic :

Trois obstacles qui affectent le plus votre entreprise :

Comment vous-organisez-vous pour surmonter ces obstacles ? _____

Assistance à la Dynamisation de l'Agribusiness au Rwanda
Second Quarterly Report : April – 30 June 2001

Quels sont vos 3 principaux objectifs d'ici à l'an 2004 ? Mettre la probabilité de réalisation (de 0 à 100%) ? et expliquez la raison :
<hr/> <hr/> <hr/>
Qu'est ce qui pourrait faciliter la réalisation de vos objectifs ?
<hr/> <hr/>
En cas d'absence prolongée (6 mois, 1 an) que devient votre entreprise ?
<hr/> <hr/> <hr/>

8. Vos commentaires

<hr/> <hr/> <hr/>
<hr/> <hr/>
<div style="display: flex; justify-content: space-between;"><div>Date</div><div>Signature</div></div>

ANNEX D

AGRIBUSINESS DEVELOPMENT ASSISTANCE – RWANDA (ADAR) FINANCING COMPONENT

Background and Summary

The original USAID Request for Proposal (RFP), and consequently the current contract implemented by Chemonics International, set aside \$1.5 million for a Loan Guarantee Fund (LGF). Since implementation began a number of factors suggest that alternatives to a straight Loan Guarantee Fund (administered through banks and monitored by the ADAR project) should be explored.

Factors:

- Borrowing capacity is extremely weak and other types of support are needed
- Funds to agribusiness are now available through other donor programs
- Financing options should be increased

Alternatives:

- A reduced **Loan Guarantee Fund** administered under the USAID/EGAD/DCA or MSED programs and not under the ADAR project directly
- Introduction of an **Agribusiness Strengthening Fund** with two core components (1) to cost share business start up and pilot demonstration projects, and (2) to create for agribusiness a new access to business advisory support services
- **A Leasing Company** to introduce secured, medium term equipment financing to the agribusiness sector. ADAR would provide an operating model to broaden understanding and generate investor participation from financial institutions.

The Approved Proposal \$ 1.5 mm	This Revised Proposal \$ 1.5 mm
<input type="checkbox"/> ADAR administered LGF \$ 1.073 mm <input type="checkbox"/> Training + ST Consultants .427 mm	<input type="checkbox"/> DCA /MSED LGF \$0.500 mm <input type="checkbox"/> Leasing Co. Start Up 0 .225 mm <input type="checkbox"/> Agribusiness Strengthening 0 .500 mm <input type="checkbox"/> Training + ST Consult 0 .275 mm
TOTAL \$ 1.500 mm	TOTAL \$1.500 mm

These proposed revisions become especially relevant in light of the third ADAR Project Intermediate Result (PIR), added by Chemonics in 2001 to the original two Mission PIR's stated in its request for proposal. Entitled "Improved Access to Finance For Agribusiness Operators" this new PIR seeks to both expand financing options and to improve access to them by upgrading agribusiness skills and operating performance and by establishing an agribusiness service support network to facilitate loan applications.

Assistance à la Dynamisation de l'Agribusiness au Rwanda
Second Quarterly Report : April – 30 June 2001

If the USAID Rwanda Mission obtains authorization to set up a small business finance facility with sufficient capacity to service the needs of ADAR clientele, we recommend no DCA LGF facility and that its \$500,000 go into the proposed Agribusiness Strengthening Fund, raising it from a proposed \$500,000 to \$ 1,000,000.

Loan Guarantee Fund

Money availability is not so much the problem as the inability of operators to qualify for loans under standard, prudent lender practices. Not qualifying for credit for lack of a guarantee is not so much the problem as is weak organization, budgeting, marketing, and overall consistently poor, irregular operating performance of individual loan applicants. Only when the borrower applicant's operating cash flow reduces business risk might the lender have less need of a guarantee.

The World Bank has in 2001 introduced to Rwanda a 14-year, \$150 million program to finance agribusiness revitalization. This multipurpose program, which is not a guarantee program, supports infrastructure, business services, loan supplements, export credits, and other components. It offers resources far exceeding the ADAR LGF to Rwandan agribusiness: one facility for example, totals \$8 million (FRW 3.6 billion) and will offer to agribusiness operators up to \$500, 000 (FRW 225 million), and without guarantee, if the business cash flow is strong.

This means lending against reduced business risk, the basis for sustainable lending of any sort. ADAR' s resources could be put to better use by empowering agribusiness to qualify for credit on the basis of their performance and presentation to lenders. The Proposed Agribusiness Strengthening Fund targets this need.

Still, the LGF is most appealing: by overcoming lingering doubts in the mind of the conventional private institutional lender (which the World Bank is clearly not), the guarantee mechanism puts funds as quickly as possible into intended productive uses. Loans not recycled into new loans because of failed or inadequate repayment, however, waste opportunities for development, frustrate lenders, and give a bad name to the borrowing sector as a whole. On the other hand, where the loan is repaid, the guarantee serves as a champion catalyst promoting a new partnership built on trust and mutual profit.

Unfortunately, the incidence of the former far outweighs that of the latter. This is not an argument against the concept of a loan guarantee mechanism as much as a reason to establish one only when virtually all the elements are right. Lending or guaranteeing without assuming risk is impossible, but against uncertainty, inexcusable.

The following create uncertainty:

- **Start Up/ Short Life of Project:** Agribusiness Revitalization is new to Rwanda. Few real business loan opportunities of any sort exist and an

Assistance à la Dynamisation de l'Agribusiness au Rwanda
Second Quarterly Report : April – 30 June 2001

incubation period is needed for new entrants to mature to the point where they can manage credit.

- **Cost – Benefit:** The ADAR project has a three- year life, but by the time a loan guarantee mechanism would be installed, perhaps a remaining two-year life at best.
- **Absolute Cost of Set Up:** The relatively high cost of set up with respect to the operating life of the fund should suggest a need to look for alternatives.
- **Size of Fund:** This again is relative to the time available for its use. Assuming a steady 20% loss rate, the \$1. 073 million in the fund, if applied as 50% guarantees could sustain a loan portfolio averaging for two years FRW 2.88 billions This vastly exceeds productive application at this early stage in agribusiness development.
- **Administration overview of the Mission:** When the contractor leaves, the mission must pick up the monitoring process, which can become quite burdensome in cases of arrears.

What can offset these constraints and justify the use of a guaranty mechanism would be to invite the USAID EGAD DCA to introduce its ongoing loan guaranty program, should it find a local Rwandan partner bank acceptable for this purpose. This existing USAID program, having already operated in 40 countries, can bring expertise to better assess the loan guarantee environment. If negative, the mission is forewarned. If positive, DCA has already necessary forms, procedures, etc. to get a loan guarantee program underway dealing directly with the partner bank. At the same time, the guarantee beneficiary or borrower profile can be made, in consultation with the mission and contractor, to conform to the strategic objectives of both.

The appeal in this approach goes beyond the relative ease and certainty of operation:

- **Cost Efficiency:** Cost is included in the “subsidy” rate. This on average is a flat 15% of the loan amount for loans up to 3 years. This covers set up, operation, plus most importantly, any obligations that may result from loan losses.
- **Cost Certainty:** We have assumed a Rwandan subsidy of 20% due to higher political and business risk factors. All such costs would be covered under ADAR’s LGF budget.
- **Usage Efficiency:** There is no pot of funds sitting idle in a bank to back guarantee obligations, which are in fact borne by the US Treasury under the DCA program. Usage consists of a one time allocation equal to 15%-20% of the loan amount to the DCA. It is not recoverable.
- **No Rush:** The program is technically between the mission and the DCA. There is no urgency to disburse induced by project deadlines. In the event that the contractor during project lifetime can productively channel say 60% of available funds, the remainder is returned to the mission.

Assistance à la Dynamisation de l'Agribusiness au Rwanda
Second Quarterly Report : April – 30 June 2001

- **Continuity:** This program can be run independently by the mission, even as a separate budget line item, while setting borrower profile guidelines for the partner bank. This continuity feature is especially important to sustain an agribusiness development program.

Assuming a 20% subsidy cost borne by ADAR to finance a DCA (50%) guarantee program, the proposed \$500,000 in sunk cost would stimulate \$ 5 million of new loans (FRW 2.2 billions). In the event of full repayment, and unlike a conventional guarantee fund, there is nothing left to back new loans: the entire amount will have been paid out to the DCA in service fees.

Agribusiness Strengthening Fund (ASF)

Chemonics proposes use of Subcontracts and Purchase Orders to provide on a cost sharing basis demand-driven equipment and related services to clients operating at strategic links in a targeted commodity chain. Clients would spell out the relevance, purpose, and benefits for ADAR review. To ensure efficiency and transparency ADAR would prepare

- An Association Strengthening Fund brochure to highlight the program
- An ASF Procedures Manual setting out the roles and obligations of participants and beneficiaries
- An internal ADAR manual covering disbursement and related recording and reporting procedures

This proposed Agribusiness Strengthening Fund would consist of two components:

Start Up and Demonstration

One of the new components proposed would provide cash to sponsor start up or pilot / demonstration projects to attract the interest and investment resources of the private sector. The objective of this component would be to cost share equipment or services (ie market test) that can expand awareness of product potential, range, quality, and related equipment needed to penetrate and/or expand into new markets. This start up / demonstration component would also promote awareness of cash generating agribusiness activities that readily adapt to small land holdings typical in Rwanda. Possibilities germane to the ADAR project could include:

- ❑ **Cooperative Managed Coffee Washing Station:** to complement funds furnished through an owner cooperative which cultivates and harvests its cherries for depulping.
- ❑ **Potato Conditioning Station:** to complement funds of stakeholders to condition potatoes (clean, sort, bag, label, etc) and to manage distribution to targeted clients
- ❑ **Irrigation Demonstration:** to induce growers to increase productivity and satisfy a market that demands greater continuity of supply.

Assistance à la Dynamisation de l'Agribusiness au Rwanda
Second Quarterly Report : April – 30 June 2001

- ❑ **Horticultural Demonstration:** to start demonstration plots that promote small holder cash crops - berries, chili peppers, string beans, pyrethrum, cardamom, macadamia, etc
- ❑ **Food Processing:** to introduce food processing techniques and machinery scaled for quantities and for the markets most accessible to Rwanda agribusiness; focus on quality control, product presentation, etc

Service de Soutien a l' Agribusiness Rwandais (SSAR)

Institutional strengthening contributing to the reinforcement of agribusiness is integral to ADAR's Improved Access to Finance PIR. This strengthening loops agribusiness operators, lenders, and agribusiness service providers such as accountants and management advisors into a mutually reinforcing circle: agribusiness operators train to improve their management skills and operating performance; the lenders train to become more knowledgeable of agribusiness and more skilled in risk evaluation of that sector; service providers hone their skills in cash flow analysis and business plan design.

The SSAR program introduces a delivery mechanism through which service providers such as accountants and consultants negotiate and deliver services to agribusiness operators. Through this dialogue agribusiness establishes a basis to upgrade skills and performance as required by lenders. This is especially necessary in Rwanda where agribusiness has virtually no grasp of basic management tools, yet desperately need these to both improve and document performance, all as a basis to apply for credit. The services for agribusiness operators to be offered by the SSAR Program would concentrate initially on six disciplines:

- **Organization Structure:** Operations/Procedures Review and Manual
- **Planning and Budgeting:** Conceptualizing and Presenting a Business Plan
- **Accounting:** Adopting an Accounting Plan and Audit Techniques
- **Cost Management:** Production Scheduling and Cost Control
- **Treasury Management:** Cash Flow Programming and Monitoring
- **Marketing:** Market Diagnostic, Customer Development and Services

SSAR's roster of consultants would have undergone training, program orientation and have formally registered under the SSAR program. ADAR would refer clients requesting or needing help to contact them to negotiate nature and cost of service to be rendered. ADAR would cost share with its client from 80% to 50% of the market-determined fee, reducing percentage shared the larger the fee. In keeping with private sector reality, the agribusiness operator would select his SSAR consultant, one he trusts and with whom he is willing to share information---- especially needed in Rwanda --- and would negotiate the fee within program parameters outlined in both the ASF brochure and ASF procedures manual.

Assistance à la Dynamisation de l'Agribusiness au Rwanda
Second Quarterly Report : April – 30 June 2001

The ADAR project would be involved from beginning to the end: first to certify the relevance of the service proposed, the quality of the end product, the agribusiness client satisfaction, and only then, the payment amount, which would constitute ADAR's cost sharing under the service agreement. Since the SSAR consultant is hired by the agribusiness operator and not by ADAR, consultant compensation does not fall under LOE.

Leasing Company

Medium Term Financing:

Most loans are short-term because bank resources (deposits) are in current account form. For various compelling reasons, depositors place funds in banks for safety and the utility of check writing, but don't open longer -term savings accounts. A leasing company does not perform as a bank: no counters, no checks, no deposits, etc. With the exception of operating liquidity, all funds are essentially capitalized in the form of equipment that customers need to use and can lease.

To develop agribusiness in Rwanda operators at virtually all levels in the commodity chain need reliable sources of medium to long -term financing for equipment. Short -term working capital loans can help pay suppliers, build inventory and maintain receivables on an expanded sales volume. But equipment and infrastructure wear down and become obsolete. New technology required, just to be competitive or maintain market access, frequently imposes different economies of scale, and new equipment needs as well. Despite these imperatives, the reality is that medium to long term financing is not available to agribusiness operators.

Leasing Company Advantages:

A leasing company can fill the breach as an interim medium term financier both for small scale

agribusiness enterprises, and presently or in the future, for business start ups without a credit history. The advantages:

- **Small Scale:** Leasing companies can procure the equipment in scale with the needs of the lessees. This can range from advanced tillers, to water pumps, irrigation equipment, well drilling machinery, mini-tractors, generators, scales, tanks, carts, pick up trucks, etc.
- **Collateral:** The leasing company retains ownership, but encourages eventual purchase and ownership by the lessee. Lessees need little, typically no collateral during the lease.
- **Discipline:** Equipment use promotes a need to own which in turn reinforces the desire to meet the payments to qualify for eventual purchase.
- **Comparative Advantage:** The purpose of the enterprise is to sell something the market wants. The enterprise is free to concentrate on that

Assistance à la Dynamisation de l'Agribusiness au Rwanda
Second Quarterly Report : April – 30 June 2001

without involvement in equipment ownership. The market does not discriminate between owners or lessees of equipment.

- **Flexibility to Switch:** A better tool or piece of machinery may be “affordable” much sooner given that the term of the lease is variable according to needs of user.
- **Capital Conservation:** Agribusiness is not mature in Rwanda. Capital is needed for so many infrastructure improvements. Reducing demands on capital through leasing of machinery and related equipment is critically important.

Rwanda has formulated a regulatory framework for leasing companies, but none exists to date. ADAR's bank survey identified two banks with interest in exploring leasing. This Proposal would apply \$225,000 of the \$1.5 million ADAR LGF fund (1) to prepare a viable operating lease company model, including organization, equipment inventory, budget and cash flow forecasts, etc to present to lender/investors; (2) to hold workshops, training of cadre, legal, publicity and other initial concept costs, and with remaining funds, (3) to cover initial leasing company set up costs

This entire \$225,000 would constitute USAID/ADAR's capital contribution, not to exceed 10%, of initial capitalization of the leasing company. Other investors, such as Rwandan banks (majority), donors within the European Union, or World Bank/IFC, and private investors would provide the balance. The shareholders would in turn approve the Operating Statutes of the company, its Articles of Association, board and director. A second capital *tranche* could be offered to investors after the first two years of operation.

Training and Consultant LOE

This LGF revision prorates funds for LOE, including travel expenses from the original proposal. Incidental training expenses is unchanged. Total number of days of LOE is lower.

- Bank Training 90 days: Six sessions over a two year period plus all material preparation. Themes to be confirmed in group meeting with banks, but essentially, targeting agribusiness elements of risk, credit analysis, project finance, relationship development and monitoring.
- Service Provider to Agribusiness Training 30 days : 4 shorter workshops over 2-year period
- Leasing Company study and related training 40 days

We consider cross training as potentially quite useful. Some service providers would definitely benefit from bank training and bankers as well can benefit from reviewing cash flow and business design scenarios. Virtually all ST expatriate and local LOE would be dedicated to training.

Assistance à la Dynamisation de l'Agribusiness au Rwanda
Second Quarterly Report : April – 30 June 2001

Overview of Budget Reallocation in US Dollars

Item	Original Proposal	Revised
<u>Proposal</u>		
-Loan Guarantee	\$ 1,073, 734	\$ 500, 000
-Leasing	n/a	225, 000
-Agricultural Strengthening	n/a	500, 000
-Training (expenses)	46, 861	40, 000
-ST Expatriate LOE	236, 851	150 ,000
-ST Expat Travel/Misc	71, 497	45, 000
-ST Local Specialist	12, 965	n/a
-ST Local Advisors	58, 092	40, 000
Total	\$ 1, 500,000 (100%)	\$ 1, 500, 000
(100%)		
Less Guarantee Fund	- 1, 073, 734 (72%)	- 500, 000
(34%)		
	>100%	>52%
Less Training/Consultants -	426, 266 (28%)	- 275, 000 (18%)
Less Leasing	n/a	- 225, 000 (15%)
		>48%
Less Agricultural Strengthening	n/a	- 500, 000 (33%)

Conclusion:

This reconstitution of the original loan guarantee fund would satisfy ADAR project bankable loan guarantee needs over the next two years, and through a less costly and more efficient means. Concurrently, this amendment supports ADAR's Improved Access to Finance PIR by increasing financing options and the likelihood of achieving access to them on a sustainable basis.

Other donor finance and loan guarantee programs complement ADAR's approach to facilitate obtaining funding precisely through such donor sources. ADAR in this proposal prioritizes reducing business risk (through better management), the core problem necessitating loan guarantees in the first place, and not merely compensating bank losses.

In the event an approved MSED program for the Mission has sufficient capacity to service ADAR clients during 2002 and 2003 (life ADAR project) we recommend putting residual ADAR LGF funds into the Agribusiness Strengthening Fund.

Assistance à la Dynamisation de l'Agribusiness au Rwanda
Second Quarterly Report : April – 30 June 2001

ADAR can achieve more by revising the original project LGF into the components described in this proposal.